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Summary of the economic and social survey of Asia and the Pacific, 1991

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Part One

Recent Economic and Social Developments

I. WORLD ECONOMIC DEVELOPMENTS AND PROSPECTS

1. The world economic and political situation took a dramatic turn in the period 1990-1991. The changes that were unfolding contained both positive and negative possibilities for the future development of the world economy. Whether the positive or the negative possibilities are realized will depend on policies pursued in a longer-term perspective. Of immediate concern was the difficult economic situation the world was facing in 1990-1991 when aggregate world output and trade expanded only marginally or not at all with different country groups achieving disparate results.

2. The world economic growth rate decelerated from 3.3 per cent in 1989 to 2.2 per cent in 1990. Estimates of growth in 1991 varied. The latest available International Monetary Fund (IMF) forecast put the 1991 world economic growth rate at 0.9 per cent. While the fall in output in Eastern Europe and the former Union of Soviet Socialist Republics contributed to the global slow-down, the outcome was influenced mainly by the slow-down in the industrial countries. The average rate of growth for the industrialized countries was halved from 2.6 per cent in 1990 to 1.3 per cent in 1991. The average rate for the developing countries decelerated marginally to 2.4 per cent in 1991 from 2.5 per cent in 1990. In Eastern Europe and the former Soviet Union output contracted by 10.6 per cent in 1991 after a 3.6 per cent decline in 1990.

3. Inflation rates, measured by changes in the consumer price index, remained relatively low on average for the industrial countries during the second half of the 1980s. Nevertheless, the average rate rose to 4.9 per cent in 1990, showing a persistent upward trend throughout 1988-1990 from the lowest rates, recorded in 1986-1987. In the United States of America the rate rose to 5.4 per cent, in Canada to 4.8 per cent and in Italy to 6.5 per cent. In the smaller industrial countries the inflation rate averaged 6.1 per cent in 1990. In 1991, the rates were expected to moderate in most countries, averaging 4.5 per cent for the seven major countries, and 5.5 per cent for the smaller countries. Only Germany's and Japan's inflation rates were expected to press further upward.

4. While policies initiated in the early 1980s succeeded in moderating inflation rates and have insisted on sustaining that gain, together with the output expansion that had at the same time taken place as the high mark of those policies' achievements, less impressive success has been achieved in combating unemployment, an issue of very critical economic and social significance and wide policy implications. Unemployment rates fell in 1990 to their lowest in a decade, to averages of 6.2 per cent for all industrial countries, 5.7 per cent for the seven major industrial countries, 8.7 per cent for other industrial countries and 8.7 per cent for the European Economic Community (EEC). In 1991, unemployment was projected to rise across the board to an average of 7.0 per cent for all industrial countries, 6.6 for major

countries, 9.3 per cent for smaller countries and 9.3 per cent for EEC, as the effects of the economic slow-down intensified from the fourth quarter of 1990 through the second quarter of 1991.

5. The effects of world economic slow-down were reflected in the volume and value of trade growth in 1990-1991. The rate of growth in world trade volume declined from 6.9 per cent in 1989 to 4.3 per cent in 1990. A mere 0.6 per cent growth was projected in 1991. Apart from the slow-down in economic activities, the disruption to trade caused by the Persian Gulf crisis and the collapse of trade among the former members of the Council for Mutual Economic Assistance (CMEA) were responsible for the worst results for world trade in many years. The dollar value of trade however was well sustained in 1990, reflecting the decline of the United States dollar in relation to other currencies during the year. In 1991, the unit value was expected to rise by 0.4 per cent which, together with a 0.6 per cent volume growth, could result in a 1 per cent growth in the value of trade compared with a 14.1 per cent growth in 1990.

6. The industrial countries' import volume growth fell sharply from 7.9 per cent in 1989 to 5.2 per cent in 1990 and to a projected 1.7 per cent in 1991. Their export volume growth declined relatively less, from 6.6 per cent to 5.9 per cent and a projected 2.3 per cent in 1991. The sharp decline in their import growth affected developing countries' exports, which grew by 4.6 per cent in volume in 1989 but fell by 0.7 per cent in 1990 and was projected to fall by a further 4.1 per cent in 1991.

7. Among the developing countries, the non-fuel-exporting countries experienced a slight gain in terms of trade of 1.2 per cent in 1990 despite a 7.9 per cent decline in the prices of non-fuel primary commodities. The fuel exporter's slower volume growth was compensated by a 13.5 per cent gain in terms of trade, reflecting the rise in oil prices in 1990. In 1991, the trade prospects of both fuel exporters and non-fuel exporters worsened on account of both slower growth of export volume and terms-of-trade losses estimated at 5.9 per cent for the fuel exporters and 1.0 per cent for the non-fuel exporters.

8. The current account balance-of-payments imbalances among major industrial countries narrowed significantly in 1990. The deficits of the United States fell below $100 billion, to $92.1 billion, for the first time since 1984. Japan's surpluses fell by $21.4 billion, to $35.8 billion, and Germany's were reduced by $9.3 billion, to $47.9 billion. The differential growth pattern in exports and imports of these three countries had contributed to the convergence in their payment balances. In addition, large transfer payments to the United States to meet the cost of the Persian Gulf crisis reinforced the convergence, which would be more fully reflected in 1991.

9. The developing countries' current account balance-of-payment deficits were projected to rise more than fourfold, to around $104 billion in 1991 from about $25 billion in 1990. Regionwise, the Middle East would incur the largest deficit, followed by the European, Latin American, Asian and African developing countries.

10. The rise in current financing needs of the developing countries after 1988, as they tried to sustain growth, was accentuated by the effects of the Persian Gulf crisis. An increase in the net flow of finance to the developing countries had also been taking place. The total net flow of financial resources to the developing countries increased by 17 per cent in nominal terms to reach, in 1990, the highest level ever ($144 billion). The increase resulted from both higher official and private disbursements.

11. The increased flow has been largely absorbed, however, in interest payments, profit remittances, and more recently, purchase of collateral, debt buybacks, and debt-equity swaps, leaving the developing countries to effect an aggregate net transfer abroad, a process which had started in 1983 and continued through to 1990.

12. The world economy is projected to register a moderate recovery in 1992 with a growth rate of 2.8 per cent as against the 0.9 per cent growth rate estimated for 1991. The industrial countries' average is forecast at the same 2.8 per cent as the world average, compared with 1.3 in 1991. These forecasts foresee the end of the recession in major countries such as the United States, Canada and the United Kingdom of Great Britain and Northern Ireland. Consumer price inflation rates in the industrial countries are also expected to decline from the 4.5 per cent estimated for 1991 to 3.8 per cent. These positive expectations are based on continued low prices of primary commodities, including oil, falling interest rates and a revival of consumer and investment confidence and demand, which were shaken by the Persian Gulf crisis and the sudden burst in oil prices at the end of 1990.

13. The economic growth rate in the developing countries is forecast at 4.8 per cent in 1992 compared with an estimated 2.4 per cent in 1991. The recovery in the industrial countries is seen to be a factor in the improved performance of the developing countries.

14. The trade-and-payment balances among the major industrial countries are expected to worsen in 1992. Germany's payment balance, which turned negative in 1991, was to have rebounded to a surplus of $9.4 billion which, however, was far below the 1990 surplus of $48.0 billion. Japan's surpluses are projected to remain high at $59.4 billion, falling marginally from $63 billion in 1991. The developing countries' payment deficits are projected to moderate from $104 billion in 1991 to $64 billion in 1992.

15. The recent patterns of growth and change in the world economy have clearly indicated that countries with a more diversified structure of trade, in terms of both commodity composition and market direction, have a better chance of stabilizing and sustaining their growth and development. The countries of the ESCAP region will have to make greater efforts to diversify their export trade, taking advantage of the changing situation and emerging opportunities for expanding trade, particularly among the developing countries within the region and in Africa and Latin America.

II. ECONOMIC PERFORMANCE AND POLICIES IN THE ESCAP REGION: 1990-1991

16. Overall economic performance in the ESCAP region remained strong during 1990-1991 in spite of a number of domestic constraints and a deterioration in the external sector. The average rate of growth for the developing economies of the region is estimated at 6.4 per cent in 1991, marginally higher than the 6.1 per cent achieved in 1990. Economic growth in the ESCAP region reached a high point in 1988 when a 9.4 per cent average rate of growth was achieved. Rates of growth have moderated since 1989, when sharp deceleration in the growth rates for China, Hong Kong, the Republic of Korea and India reduced the previous years' regional average by 4 percentage points.

17. China's growth rates improved considerably, reaching 5.1 per cent in 1990 and 6.1 per cent in 1991. India, however, received some set-backs in 1991 and was expected to achieve a lower growth rate, of 3.5 per cent compared with 5 per cent in 1990 and 5.2 per cent in 1989. The four newly industrializing economies would improve their average performance, which rose to 7.6 per cent in 1991 from 6.9 per cent in 1990, with some deceleration of growth in Singapore balanced out by accelerated growth in Hong Kong and Taiwan Province of China. Rates of growth in the four larger Association of South-East Asian Nations (ASEAN) countries, Indonesia, Malaysia, the Philippines and Thailand, would be generally lower, with an average of 6.2 per cent in 1991 compared with 7.8 per cent in 1990. With the exceptions of Nepal and Pakistan, growth rates were lower in South Asia, with an average of 4.7 per cent in 1991 compared with 5.1 per cent in 1990.

18. Among the three developed countries of the region, Japan's rate of economic growth averaged 5.5 per cent during 1988-1990. Even if the Japanese economy had lost some of its export stimulus in recent years, both domestic consumption and investment demand expansion kept the economy on a high growth path that did not, however, upset price stability, although this was not the case for the two other high-income economies of the region, namely, those of Australia and New Zealand. Australia's economic growth rate was well sustained at an average 3.9 per cent during the period 1987-1990; however, the economy went into recession with a 1.1 per cent contraction in 1991. In New Zealand, the economic growth rate had been averaging less than 1 per cent annually since 1987. Government policies in these countries had been aiming to reduce budgetary and external current account deficits, two major difficulties faced by both of them.

19. The developing economies of the region, not unexpectedly, showed great variation in their economic performance in 1990-1991. The developing economies of North-East Asia improved their performance in 1990-1991 after the 1989 slow-down. The exception was the economy of Mongolia, which had been undergoing a rapid transformation from a centrally planned to a market system and experienced a decline in real income in 1991. Owing largely to the strict measures of austerity implemented by China since late 1988, which also affected the performance of Hong Kong, the rates of growth in both economies had slumped in 1989. With the gradual loosening of policy restraints, the Chinese economy advanced at rates of 5.1 and 6.1 per cent in 1990 and 1991

respectively. The economies of Hong Kong and Taiwan Province of China also improved over the period 1990-1991. Hong Kong's growth rate was projected to rise to 4.5 per cent in 1991 after having grown at rates of around 2.8 per cent during the period 1989-1990. Economic growth in Taiwan Province of China fell from 7.4 per cent in 1989 to 5.2 per cent in 1990, but was expected to reach 7.4 per cent in 1991. The Republic of Korea's gross domestic product (GDP) growth, which had slumped to 6.1 per cent in 1989, recovered, reaching 9 per cent in 1990, and was expected to be lower (8.6 per cent) in 1991. Despite some set-backs, in the external sector growth in both domestic consumption and investment demand kept the economy growing at high rates in 1990-1991.

20. Economic growth in the South-East Asian countries, except the Philippines, remained strong even though growth rates were lower in all countries in 1991. Rates of growth ranged from 7.2 per cent in Indonesia to 10 per cent in Thailand in 1990. Indonesia, Malaysia, Singapore and Thailand were expected to achieve lower rates of growth, ranging from 6 to 8 per cent in 1991. High-speed growth in previous years had caused some overheating in these economies, requiring a cooling down and an overcoming of capacity constraints in several directions. The Philippine economy suffered a severe set-back in 1991 when real gross national product (GNP) growth was expected to slump to 0.6 per cent from 2.1 per cent (output basis) in 1990 and 5.9 per cent in 1989. The economy of Viet Nam slowed with a GNP growth rate of 2.9 per cent in 1990; the growth rate improved to 3.2 per cent in 1991, although it was below the 4.3 per cent target. Weather-related set-backs in agricultural production, inflationary outbursts that proceeded from policy liberalization and had to be contained and difficulties with the country's external economic relations compounded by aid cut-offs from the former Soviet Union and Eastern Europe, as well as a loss of special trading privileges with them, were major difficulties facing Viet Nam's economy.

21. Economic performance in South Asia experienced set-backs in 1991. Political changes and associated uncertainties in 1990-1991, natural calamities and the consequences of the Persian Gulf crisis, which particularly affected South Asian economies, were the major causes of the set-back. India's growth rate was reduced from 5.0 per cent in 1990 to a forecast 3.5 per cent in 1991. The Bangladesh economy managed to grow at a rate of 3.6 per cent in 1991 after having grown by 5.8 per cent in 1990. The economy of Nepal grew by 4.0 per cent (double the rate achieved in 1990) as it successfully resolved its trade and transit impasse with India, a factor that had hindered progress in the previous year. Despite difficulties, Pakistan's economic growth rate increased, improving by one percentage point, from 4.6 per cent in 1990 to 5.6 per cent in 1991. Sri Lanka's GDP growth rate improved, increasing to 6.2 per cent in 1990 from 2.3 per cent in 1989, but was expected to slow down, to 4.6 per cent, in 1991. The economy of the Islamic Republic of Iran, after having suffered a net decline of 0.3 per cent per year during the long period of turmoil and war between 1977 and 1988, improved, achieving a GDP growth rate of 3.6 per cent in 1989 and of 10.5 per cent in 1990; its growth rate for 1991 was projected at 8 per cent.

22. Rates of economic growth in the developing countries of the Economic and Social Commission for Asia and the Pacific (ESCAP) region are expected to improve in 1992 but only by small margins. The average rate for the developing countries could improve to 6.7 per cent in 1992 compared with the 6.4 per cent achieved in 1991. The expected improvement would thus be a consolidation of the pattern of rather stable growth at moderate rates experienced throughout the region during the period 1989-1991.

23. Most economies of the region maintained reasonable price stability although there was some upward pressure on prices in a number of cases. The inflation rate in China was brought down to 2.1 per cent in 1990 from 17.8 per cent in 1989. Price stability was maintained in 1991 (the retail price index rose at the same 2.1 per cent rate as in 1990). There were apprehensions however of price stability's being affected by factors such as the sharp increase in the rationed prices of food grains and cooking oil in mid-1991, the shortage in agricultural supplies and the monetary consequences of financing the growing budget deficits. Inflation in Hong Kong had been accelerating in the face of a number of domestic constraints and higher energy prices, the rate rising to 12 per cent in 1991 from 8.9 per cent in 1990. In the Republic of Korea also both demand pressures and wage cost-push led to an acceleration in the inflation rate, the consumer price index (CPI) having risen by 9.4 per cent in 1990 and by an anticipated 9.6 per cent in 1991.

24. Inflation remained relatively low in Malaysia, Singapore and Thailand although rates had been pressing upwards in all three countries. An escalation by about one percentage point in 1991 raised the inflation rates in Malaysia and Singapore to the 3 and 4 per cent levels respectively. In Thailand, the rate of inflation escalated from 5.4 per cent in 1989 to 5.0 per cent in 1990 and was marginally lowered to 5.9 per cent in 1991 (January-September). Inflation was higher (at 9.5 per cent) in Indonesia in 1990, having risen from 6 per cent in 1989. In the Philippines price inflation escalated from 10.6 per cent in 1989 to 12.7 per cent in 1990 and during the first 8 months of 1991 averaged 18.5 per cent, thus confirming a serious upward escalation in price movements in the economy. Despite some successes achieved in controlling hyperinflation in 1989, the Viet Nam economy remained under severe inflationary pressure with an inflation rate of 67.5 per cent in 1990 after a 34.7 per cent rise in 1989. Prices were rising fast in 1991 also, though there were some indications of moderation in the later part of the year.

25. South Asian countries generally experienced high rates of inflation. The rates of price rise tended to accelerate in 1990-1991, particularly in India and Pakistan. Thus, in India the CPI (industrial workers) rose by 13.6 per cent in 1990. Inflation was estimated to have reached an annual rate of 15.3 per cent at the end of September 1991. In Pakistan, similarly, an inflation rate of 12.6 per cent was estimated in 1991 compared with 9.1 per cent in 1990. In Bangladesh and Nepal, by contrast, inflation appeared to have moderated in 1990. The CPI in Dhaka (capital of Bangladesh) rose by 8.9 per cent in 1990 compared with 9.3 per cent in 1989 and in Nepal by 7.9 per cent compared with 11.5 per cent in 1989. The Sri Lankan inflation rate (CPI, Colombo) rose to a peak of 21.5 per cent in 1990 and was estimated

to have come down to 13.6 per cent in 1991. The Islamic Republic of Iran succeeded in reducing its inflation rate from 17.4 per cent in 1989 to 9.0 per cent in 1990.

26. Savings and investment activities in the North-East Asian economies, particularly in China and the Republic of Korea, remained strong. Gross fixed investment in China, after a decline in 1989, registered growth of 7.5 per cent in 1990 and 14.0 per cent in 1991. The Republic of Korea's investment ratio advanced from 33.4 per cent in 1989 to 37.0 per cent in 1990, which left a resource gap of nearly 2 per cent of GNP as the savings rate reached 35.3 per cent. The economy of the Republic of Korea was facing balance-of-payments disequilibrium, with a sharp increase in current account balance-of-payment deficits, to from US$ 2.2 billion in 1990 to US$ 6.9 billion in 1991. China's balance of payments, however, moved favourably after the policy restraints that dampened demand and enforced stricter regulatory restrictions on imports were applied.

27. Despite a slow-down in foreign investment flow, savings and investment activities in South-East Asia remained generally strong. The external current account balance-of-payment deficits were increasing in most cases as imports rose faster than exports owing to domestic demand pressures as well as higher oil prices resulting from the Persian Gulf crisis. Government policies, while seeking to further liberalize trade, investment and financial activities, remained cautious. Most countries, however, embarked upon the implementation of large infrastructural investment projects, for example, in transport and communications, to ease the bottlenecks that had emerged. This factor was responsible for higher levels of budgetary expenditure. Budgetary deficits tended to escalate in Indonesia, Malaysia and the Philippines while Singapore and Thailand ran comfortable surpluses.

28. Savings and investment activities in most countries in South Asia remained subdued. Domestic savings rates failed to narrow the traditional resource gap. Foreign resources inflow remained constrained by slow disbursement despite larger commitments of official resources. Some countries, such as Pakistan, faced political constraints in obtaining fresh commitments, especially from some important bilateral sources. Private resources flows (in which foreign direct investment has been playing a growing role) had yet to make a large impression on the investment scene in South Asia despite policies having become more liberal, and even inviting, with respect to such investments. Most of the economies continued to suffer from macroeconomic imbalances reflected in high budgetary and external current account deficits, high rates of monetary growth and inflation.

III. RECENT ECONOMIC PERFORMANCE AND POLICIES: THE LEAST DEVELOPED AND THE ISLAND ECONOMIES

29. Among the region's least developed countries, Afghanistan apparently made no progress towards growth or economic stability, as indicated by the continuing decline in the country's real GDP and almost hyperinflationary rates of price increases during the period 1988-1990. An average 1.2 per cent

annual contraction in GDP during the period 1978-1986 appears to have accelerated further in later years. Bangladesh achieved economic growth rates of 5.8 per cent in 1990 and 3.6 per cent in 1991. A higher economic growth rate at 5.7 per cent was envisaged for the coming year. The balances for savings investment, public finances and external payment left wide financial gaps to be met from external sources. Bhutan's spurt of high GDP growth in 1986 and 1987, associated with the launching of a few large-scale projects, including the Chhukha Valley hydroelectric dam, slumped to 1.2 per cent real growth in 1988 but increased to 4.6 per cent in 1989. A compound growth rate of 7.5 per cent was sustained during the period 1980-1989, showing the economy's longer-term strength and resilience.

30. The economy of the Lao People's Democratic Republic grew strongly in 1989 and 1990 with real GDP increasing by 8.9 and 8.4 per cent, respectively. These rates contrasted with a 5.9 per cent decline in GDP in 1987, followed by 2.4 per cent growth in 1988. Maldives continued to achieve high growth rates in the second half of the 1980s. Real GDP grew at an average annual rate of over 10 per cent during the 1986-1990 period, largely owing to the strong performance of the tourism and fisheries sectors. GDP increased by 15 per cent in 1990 over 1989, thus confirming the sustained economic progress that the country had been making. In 1990, Myanmar achieved a growth rate of 5.6 per cent following a 3.6 per cent growth rate in the previous year. Agricultural output increased by about 6 per cent. Nepal experienced new vigour in its economy, particularly in the non-agricultural sector in 1991. With increased industrial production and the resumption of economic activities in the trade and construction sectors, GDP in real terms was estimated to have grown by 4 per cent in 1991, double the rate in 1990.

31. In Samoa, GDP declined by 3 per cent in 1990 after 1.3 per cent growth in 1989. Growth of 1.5 per cent was expected in 1991. Vanuatu achieved a growth rate of 5.0 per cent in 1990 compared with 4.5 per cent in the previous year. At least 3.5 per cent growth was expected in 1991.

32. Natural calamities, low primary commodity prices and higher energy costs due to the Persian Gulf crisis adversely affected the growth performance of the least developed countries. Kiribati, Samoa and Vanuatu suffered in various degrees from falling prices for copra, an important export item.

33. In 1990, the economies of most island countries grew at rates lower than those achieved in 1989. The economy of Papua New Guinea suffered actual contraction in GDP, with depressed international commodity prices largely responsible for the general slow-down in economic growth in 1990. There was an added political factor in Papua New Guinea, which led to the closure of one of the country's main revenue sources, the Bougainville copper mine, in 1989. Papua New Guinea was expecting a full recovery in 1991 and the recording of 8.0 per cent growth. In Fiji, real GDP grew at a slower rate, of 4.3 per cent, in 1990 following an impressive 12.3 per cent growth in 1989.

34. After recording a 6.9 per cent growth rate in 1989, which was the second highest recorded by Solomon Islands for the 1980s, its economic growth slowed to 5.6 per cent in 1990. This growth rate was achieved despite the effects of

lower international commodity prices. The agriculture sector grew by about 8.0 per cent in 1990. In Tonga, the GDP growth rate was a mere 0.8 per cent compared with the growth rate of 1.7 per cent recorded in 1989. The slow-down in economic growth in 1990 reflected the falling levels of production in agriculture, particularly in coconut products, vanilla and bananas, and in fishing. A rate of 3.7 per cent growth was expected in 1991.

IV. EXTERNAL TRADE AND BALANCE OF PAYMENTS

35. With sharp deceleration in growth rates of world output and trade in 1990 and 1991, countries in the ESCAP region were facing difficult adjustment problems in the very important external trading sectors of their economies. The situation was more complicated and involved tougher choices for the countries that still had relatively low rates of participation in world trade but were in the process of effecting structural adjustments to bolster domestic economic activities by articulating policies that emphasized deregulation of external trade, dismantling of tariff and non-tariff barriers to movement of goods and services, and removal of obstacles to private capital inflows.

36. In the current situation the region was adversely affected by declining world prices of non-fuel primary commodities, which fell by 0.5 per cent in 1990 and were projected to decline further (by 7.9 per cent) in 1991 and (by 5.7 per cent) in 1992. During 1990 world market prices of rice, coffee, tea, copra, rubber, palm oil, copper and tin remained depressed and caused considerable loss of earnings to South-East Asian countries in particular.

37. Total exports of the ESCAP region in 1990 amounted to US$ 715.4 billion, which represented 21.1 per cent of world exports. The developing economies share in the regional total was 53 per cent, or 11.2 per cent of the world total. Exports from the region increased by 9.1 per cent over 1990. This represented an improvement over the previous year's growth rate of 8.5 per cent. While this performance in a period of world recession was impressive and further confirmed the region's record of trade dynamism, it partly reflected the dollar's depreciation in 1990 and the recovery of China's and the Republic of Korea's exports from the sharp decline in 1989.

38. Higher gains in nominal export earnings in 1990 accrued to China, Nepal, Pakistan, Singapore and Sri Lanka. Small gains also accrued to Bangladesh, Indonesia and the Republic of Korea. The exports of Hong Kong, India, Malaysia and Thailand grew at slower rates than in 1989 though those rates were still impressively high. The export growth rate of the Philippines and that of the Republic of Korea remained low, with that of the Philippine's sharply decelerating.

39. The small islands and the least developed economies either achieved only marginal gains or incurred losses. Thus, in the South Pacific, Papua New Guinea, Samoa, Solomon Islands and Vanuatu incurred substantial losses in 1990. All these countries have markedly narrow-based export structures and are extremely vulnerable to uncertain movements of the prices of their

exportables. Only Fiji and Tonga, among the Pacific island economies, made substantial gains in export earnings in 1989 and 1990. Fiji had succeeded in diversifying its product base and market during the recent five-year period, but the prospects for its exports in 1991 appeared to be unpromising as was signified by the almost 66 per cent fall in exports during the first half of the year.

40. The developing Asian region's balance of payments on current account, after a nominal surplus of US$ 0.8 billion in 1989, suffered a deficit of US$ 1.7 billion in 1990. The deficits were projected to rise to US$ 12.1 billion in 1991 and US$ 10.0 billion in 1992, thus putting a definite end to the surpluses recorded since 1986.

V. ASPECTS OF SOCIAL DEVELOPMENT: EMPLOYMENT AND RELATED ISSUES

41. In the ESCAP region, which is the home of almost three fifths of humanity, the question of employment of an estimated billion people of working age in the developing areas currently reported as being economically active assumes great significance. Data and reports on the employment situation in the region are often of doubtful quality. Available information suggests a difference between the countries that have been experiencing rather serious unemployment and underemployment and those that have entered into conditions of labour scarcity.

42. The newly industrializing economies, and recently Malaysia and Thailand, have been facing shortages of skilled labour as well as of managerial and engineering personnel for the expanding manufacturing sector. In Singapore, rapid industrialization has caused labour demand to exceed domestic supply for more than a decade, with the exception of the 1985 recession period when the economy lost approximately 100,000 workplaces in manufacturing and construction. In Hong Kong, unemployment and underemployment are at less than 2 and 1 per cent respectively. In the Republic of Korea, unemployment rates dropped from 4 per cent in 1985 to 2.4 per cent in 1990.

43. Demand for industrial labour in Thailand has been increasing since 1988. Sectoral shortages, especially in skilled and semi-skilled labour and in the professions, occurred starting in 1990. Unemployment in 1990, estimated at 3.1 per cent, reflected higher unemployment among the unskilled, especially women. In Malaysia, total employment increased by over 4 per cent in 1990; yet formal sector unemployment was estimated at 5.8 per cent in 1991, which represented a marginal increase over the figure for 1990. These data again reflect the higher rates of unemployment among the unskilled or those whose skill levels do not match the economy's current requirements.

44. Other countries of the region faced aggravated problems in accommodating labour that agriculture could no longer profitably use or that industry and some of the service sectors had been required to release for the purpose of restructuring to achieve greater efficiency. The problem has tended to appear

in its most acute form in countries that have recently embarked upon a restructuring process seeking to transform their economies from centrally planned systems into market-oriented ones.

45. Data indicate that recorded unemployment has increased in several countries of the region over the past five years, notably in China, India, Indonesia, Myanmar and the Philippines. In percentage terms, however, the rates exceeded 3 per cent only in Malaysia, the Philippines and Sri Lanka. If these figures reflect reality, countries in the region do not need to complain, considering that most of the highly industrialized countries have been suffering from persistent unemployment indicated by rates of 6-10 per cent and that some have been experiencing rates that are even higher.

46. Unemployment statistics in the developing economies of the Asian and Pacific region mask, however, the large group of men, women and children who are engaged in hazardous and exploitative work in the informal sector and do not register as unemployed, since their livelihoods are totally divorced from the formal economy. This applies specially to women. Women who lose jobs are less likely to be recorded as seeking employment and are more ready and willing to resort to self-employment in petty production, trade or services or in poverty-level small agriculture in order to generate a subsistence income. Conditions of work relating to wages, hours and protection against exploitation vary from country to country and also among sectors within a country but generally leave considerable scope for improvements.

Part Two

Challenges of Macroeconomic Management in the Developing ESCAP Region

I. BACKGROUND OF THE STUDY

47. The current world economic environment is characterized by an increasing trend towards global and regional economic interdependence. At the same time there is evidence of a growing trend towards greater economic liberalization and deregulation among economies representing all shades of ideology. These two dynamic developments, which are not unrelated, have given rise to evolving imperatives and impulses for continuous structural change as well as to ancillary policy adjustments and reforms for enhanced domestic economic efficiency and flexibility and hence for international competitiveness. The two developments have posed daunting challenges to the management of macroeconomic policy and the policy reform process for sustainable growth and restructuring as necessitated by the changing contours of comparative advantage over time. Part two of the present summary examines in some depth a certain number of those challenges as distilled from rich and varied experience among the developing economies of the ESCAP region in the past two decades or so.

48. Development strategies differed significantly across the region in the 1950s and 1960s, with import substitution policies the initial choice for a

strategic development approach among many developing economies. However, in the early and mid-1960s, the Republic of Korea, Singapore and Taiwan Province of China initiated shifts in their policy stance in favour of a greater outward orientation with vigorous promotion of export-led industrialization. These economies, together with Hong Kong, have since displayed significant economic dynamism over extended periods of time. Admittedly, there are several complex and contentious issues concerning the precise links between economic performance and policy orientation. Nevertheless, economic growth and structural transformation among those newly industrializing economies have provided an eloquent demonstration of striking success. Since the second half of the 1970s, there have emerged other waves of policy adjustments and reforms to ensure more open trade and capital flows, hence a higher degree of reliance on the operation of market forces and the discipline of international costs and prices.

II. MANAGEMENT OF EXTERNAL SECTOR POLICY

49. Available experience on development reveals that perhaps nowhere else in the third world has the nexus among trade, industrialization and technological achievements been as well established as among the region's developing economies. Although a dynamic base of manufacturing exports is one of the key requirements for sustained growth and restructuring, its development and diversification have to be fostered through a relatively outward-oriented trade and commercial policy regime that does not discriminate unduly between domestic sales and exports. Ancillary deregulation measures are also needed to ensure commensurate and timely domestic responses to emerging signals from local and external demand.

50. The general shift to achieve greater outward orientation in the domestic policy framework, as well as the scope and speed of related policy adjustments and reforms, has been motivated by different factors at various points in time. Those factors reflect significant diversity among the economies concerned in their initial economic conditions and institutions, recent history and circumstances. In the early 1960s most of the new industrial economies had reached the economic limitation imposed by their small domestic market and poor resource base, among other factors. Among the dominant reasons for the structural adjustments made by most economies in other developing ESCAP subregions in the years following the late 1970s was the desire to reverse costly and/or unmanageable imbalances in the external and fiscal accounts, to promote economic growth through increased efficiency and competitiveness and to foster technological upgrading and diversification. China, in particular, has made impressive economic gains through foreign trade and investment since the late 1970s.

51. The process of trade liberalization in several newly industrializing economies and then in other developing economies of the region was characterized by a dual-track system of protection-cum-competition. On the one hand, there was a general substitution of tariffs for most quantitative

import restrictions, an easing of other import controls and a reduction in and rationalization of the range and rates of tariffs. On the other hand, a wide range of incentives such as concessions and subsidies of the fiscal and monetary varieties were provided to offset in varying degrees the remaining anti-export bias of the evolving trade policy regime.

52. The approach thus embodied an appreciable degree of government intervention and steerage, through the implementation of wide-ranging policy reforms as well as through the provision of conditional, time-specific and gradually declining protection, especially at the initial stages of restructuring and diversification. Furthermore, it was not accompanied by wholesale liberalization of the external sector nor by extensive deregulation of domestic factor and product market operations, particularly in the East Asian economies of the 1960s and 1970s. In contrast, however, a faster pace and wider scope in policy reforms were adopted by other developing economies in the region starting in the late 1970s. This was necessary to cope more effectively with rapid changes in external economic conditions, especially the technological revolution and rising international competition.

III. POLICY MANAGEMENT IN KEY DOMESTIC SECTORS

53. Along with trade liberalization, there have been ancillary economic deregulation measures to ensure commensurate and timely domestic responses to emerging signals from local and external demand. The consequent shifts away from import-substitution industrialization, and the patterns of industrial restructuring in the developing economies of the ESCAP region over the last two decades or so, have displayed both a defensive and a positive nature; also, the process has been mediated largely through increased external trade and capital transactions in many of those economies. A hallmark of such evolving restructuring has been the so-called multiple catching-up process which, in effect, represents a catalytic synergy between foreign trade and investment on the one hand and a supportive macroeconomic policy environment and cumulative learning on the other.

54. Among the newly industrializing economies, the fast-paced drive into labour-intensive, standard technology exports had generated increasingly acute labour shortages since the early 1970s. This was among the dominant factors behind the subsequent industrial diversification and upgrading into capital- and/or skill-intensive manufactures within those economies. In other developing economies, concerted efforts have been made since the 1980s to effect greater deregulation of industrial activities and to promote export-led industrialization. In the restructuring process, many of these economies have achieved considerable technological leap-frogging, so that they have become important producers of a wide array of sophisticated manufactured products within a short or truncated period of industrial transition. Malaysia and Thailand are experiencing various degrees of labour shortage in terms of both supply levels and skill composition at present, necessitating continual diversification and upgrading away from labour-intensive industrialization, as well as complementary government support, particularly in the provision of such prerequisites as various types of infrastructure and training services.

55. In addition to affecting industrial development, the evolving reform process moving towards greater trade liberalization and domestic economic deregulation has improved the domestic incentive structure within the agricultural sector. Reinforced by earlier or ancillary policy efforts to raise farm production and productivity by means of both price and non-price measures, agricultural performance, particularly in many economies of South-East and South Asia, has strengthened sharply since the mid- or late 1970s. In turn, the expanding agricultural sector, as a source of input and demand, has contributed to domestic industrialization and thus holds great promise as an important factor in internally generated growth.

56. However, in a number of economies of the region including several least developed ones, food-related self-sufficiency has been precarious from year to year, while the green revolution has yet to become widespread. Some economies are also constrained by highly limited areas of cultivable land and considerable land degradation. Intensive cultivation appears unavoidable for ensuring continual food security and adequate nutrition, and the successful implementation of a supportive policy in this regard would prove a daunting challenge to most least developed economies, and for that matter to most Pacific island ones, because of a variety of difficult development constraints.

IV. SELECTED ISSUES IN POLICY REFORM

57. The enhanced operation of major product markets, owing to evolving trade and industrial policy liberalization and deregulation, would require several ancillary adjustments and reforms in factor market policies as well as the maintenance of reasonable macroeconomic stability. Resource mobilization measures are important in this context. Although the share of domestic resources obtained by Government has been rising, this has not been accompanied by a commensurate rise in gross domestic savings rates, especially in many South Asian and Pacific island economies. Such a trend reflects the limited contribution of government savings from additional revenue, which is attributable, in turn, to the extensive operations of public-sector enterprises in many economies. As many of those enterprises have constituted a heavy drain on budgetary resources, any induced improvement in their performance would certainly contribute to better utilization and allocation of aggregate resources. Nevertheless, there are apparently few convenient short cuts to greater efficiency, modernization, nation-building and economic prosperity. Considerable scope does exist, however, for efficiency gains through improved expenditure allocation and management, as well as through greater rationalization in tax systems and enhanced tax administration.

58. A greater flow of domestic resources can also be mobilized through more effective financial intermediation. The setting of realistic interest rates on bank deposits is important in this connection, as evidenced by the development experience in many economies of the region. Against the then-prevailing conventional wisdom, the Republic of Korea and Taiwan Province of China initiated some basic reforms of financial-sector policies in the early and mid-1960s and the consequent prevalence of positive real interest

rates contributed significantly to the high and rising rates of gross domestic savings. Financial-sector reforms were intensified by many developing economies in the 1980s to complement ongoing economic liberalization. Indonesia, in particular, effected substantial deregulation of the domestic financial sector during the period 1983-1988. The late 1980s also witnessed important financial liberation measures in many other economies across the developing ESCAP region.

59. External resources have generally played a crucial role in supplementing inadequate domestic savings. Generally, overseas aid constitutes the largest share of resource transfers in many economies of the region. Several of these economies, including China, India, Indonesia and the Republic of Korea, have made considerable use of loan financing, while foreign direct investment has become an increasingly important component of external resource flows particularly to most East and South-East Asian economies. Several economies in these two subregions, the newly industrializing economies especially, have become important investors again, largely in other East and South-East Asian economies. Given the dominant share in external aid of a few low-income countries, it is important that the least developed and Pacific island economies are not crowded out, with regard to the obtaining of such resources. This consideration assumes additional significance given the expected increased competition for external savings in the 1990s.

60. The experience of aggregate demand management among developing economies within the region also displays considerable diversity in terms of scope and relative emphases. Certainly it was the serial external shocks of the early 1980s that provided the momentum for macroeconomic stabilization, although in several of those economies this course of action was also necessitated by unsustainable structural policies. Generally, a pattern has emerged involving the relatively widely shared emphasis on the maintenance of a stable macroeconomy as a precondition for durable growth and restructuring. Austere demand management measures aggravated the 1985 economic downturn in virtually all the market economies of South-East Asia. Nevertheless, the restoration of sound macroeconomic fundamentals provided the necessary stability and signals for the implementation of ongoing or successive restructuring measures; combined, these elements contributed to the investment- and export-led boom in a large part of this subregion during the second half of the 1980s.

V. PERSPECTIVES ON THE POLICY REFORM PROCESS

61. The train of reform processes in various economies over the last two decades or so have shown kaleidoscopic approaches and characteristics. A faster pace and wider scope in policy reforms were adopted by many economies beginning in the late 1970s. The process has involved, with varying degrees of simultaneity, ancillary and major changes in external trade and capital, industry, and domestic financial sectors. Besides, many policy adjustments were telescoped into a space of much less than a decade. In many South Asian countries and several transitional economies as well, substantial measures in policy reform were introduced at a time when the international economy was

slowing down; there have also been considerable uncertainties regarding movements in broad external economic and financial trends, at least in the early part of this decade. Nevertheless many of those economies will have to carry forward and manage successive phases of policy adjustments and economic transition for a number of reasons, not least among which is the fact that comparatively there remains considerable scope for further liberalization and deregulation of their factor and product markets for even greater economic efficiency and flexibility.

62. There has been no unique or universal pattern of sequencing of policy reforms, not least among the reasons for which being the great diversity of initial conditions among the restructuring economies. The Republic of Korea and Taiwan Province of China have generally followed the conventional approach of reforming the real (product) sectors in advance of financial and external capital accounts deregulation. To some extent, since the mid-1980s Thailand and, more recently, Pakistan have adopted a similar phasing of sectoral policy adjustments; several other countries such as India are apparently proceeding, by and large, with complementary trade and capital deregulation. On the other hand, Indonesia and Malaysia have in varying degrees followed a reverse sequencing.

63. It is also apparent from the unfolding economic vista that the evolving transformation, through the changing international division of labour within and across the developing ESCAP region, is likely to remain both appealing and relevant to most of these economies in the coming decade and beyond. However, like most other historical processes of rapid growth and structural change, any self-reinforcing system of cumulative causation is predicated on a number of tightly interwoven prerequisites.

64. First and perhaps foremost is the realization of a high, rising rate of domestic savings over time. This implies, among other things, reasonably effective resource mobilization and financial intermediation policies as well as sustainable levels of fiscal deficits in the patterns of overall resource use. A second and related parameter is the general absence of sizeable and prolonged macroeconomic imbalances, which reflects the sustainable outcomes of domestic demand management and restructuring policies as development unfolds along the path of deepened interdependence. Combined with an outward development approach, these two economic fundamentals can play a significant part in attracting large inflows of external savings, and a rising share of inward direct investment in such transfers, to cushion the domestic resource gap. All these factors have certainly facilitated the productive internalization of foreign resource transfers as a supplement to, and not a substitute for, inadequate private sector surpluses and not infrequently negative government savings in many economies. Increasingly, the judicious combination of a supportive policy framework with a responsive market mechanism will most probably yield to economies a sharper edge in their mobilization of the investment resources needed to cope flexibly and efficiently with the ever-changing contours of comparative advantage.

65. However, such a market mechanism apparently does not often emerge as a necessary or natural consequence of wide-ranging economic liberalization and deregulation through policy reform. In addition, there remain several areas in which market forces fail to provide adequate guidance. The synergic harmonization of government provision and private enterprise is thus crucial in the process of sustainable growth and transformation, but such gainful collaboration is also predicated on the availability of adequate skills and experienced human resources in the public and private sectors. There would need to be a sufficient pool of risk-taking entrepreneurship as well. That these prerequisites are not always readily available or in place entails other difficulties in the management of policy reform. Moreover, the process of carrying out macroeconomic policy adjustments and reforms will inevitably generate transitional costs that can be unbearably severe, especially on the more vulnerable social segments (such as women, the young, the aged and the infirm). There is thus a pressing need for targeted protective safeguards for the underprivileged built into the reform package, an explicit recognition of social obligations being an important part of greater community cohesion and stronger community values.

66. The policy-induced patterns of industrialization through deepened economic interdependence have also had a strong impact on the quality and quantity of environmental assets. The evolving restructuring process in many economies of the region thus poses another dilemma for policy management. Development is needed to mitigate dire poverty and the environmental degradation due to such poverty, but growth through industrialization has also generated severe ecological strains and stresses. Promoting growth, alleviating poverty and protecting the environment have become mutually supportive objectives of the development process. Therein lies a basic challenge of the art of macroeconomic policy management faced by policy makers in a world of increasing complementarity and internationalization.